

GILAT SATELLITE NETWORKS LTD  
Form 6-K  
September 27, 2011

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR  
15D-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF SEPTEMBER 2011

GILAT SATELLITE NETWORKS LTD.  
(Name of Registrant)

21 YEGIA KAPAYIM, KIRYAT ARYE, PETAH TIKVAH, ISRAEL  
(Address of Principal Executive Office)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT FILES OR WILL FILE ANNUAL  
REPORTS UNDER COVER OF FORM 20-F OR FORM 40-F.

FORM 20-F  FORM 40-F

INDICATE BY CHECK MARK IF THE REGISTRANT IS SUBMITTING THE FORM 6-K IN  
PAPER AS PERMITTED BY REGULATION S-T RULE 101(B)(1):

INDICATE BY CHECK MARK IF THE REGISTRANT IS SUBMITTING THE FORM 6-K IN  
PAPER AS PERMITTED BY REGULATION S-T RULE 101(B)(7):

INDICATE BY CHECK MARK WHETHER BY FURNISHING THE INFORMATION CONTAINED IN  
THIS FORM, THE REGISTRANT IS ALSO THEREBY FURNISHING THE INFORMATION TO THE  
COMMISSION PURSUANT TO RULE 12G3-2(B) UNDER THE SECURITIES EXCHANGE ACT OF 1934.

YES  NO

IF "YES" IS MARKED, INDICATE BELOW THE FILE NUMBER ASSIGNED TO THE  
REGISTRANT IN CONNECTION WITH RULE 12G3-2(B): 82-\_\_\_\_\_

THIS FORM 6-K IS BEING INCORPORATED BY REFERENCE INTO THE REGISTRANT'S FORM F-3  
REGISTRATION STATEMENT FILE NOS. 333-174142 and 333-160683 AND FORM S-8 REGISTRATION  
STATEMENTS FILE NOS. 333- 158476, 333-96630, 333-132649, 333-123410, 333-113932, 333-08826, 333-10092,  
333-12466 and 333-12988.

GILAT SATELLITE NETWORKS LTD.



Attached hereto is Registrant's Condensed Interim Consolidated Financial Statements as of June 30, 2011 and Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2011.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Gilat Satellite Networks Ltd.  
(Registrant)

Dated September 27, 2011

By: /s/ Joann R. Blasberg  
Joann R. Blasberg  
Corporate Secretary

6-K Items

1. Condensed Interim Consolidated Financial Statements of Gilat Satellite Networks Ltd. and its subsidiaries as of June 30, 2011.
  2. Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations for the six months ended June 30, 2011.
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ITEM 1

GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2011

IN U.S. DOLLARS

UNAUDITED

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## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

|   | June 30,<br>2011<br>Unaudited | December<br>31, 2010 |
|---|-------------------------------|----------------------|
| <b>ASSETS</b>   |                               |                      |
| <b>CURRENT ASSETS:</b>  |                               |                      |
| Cash and cash equivalents   | \$46,114                      | \$57,238             |
| Short-term restricted cash  | 4,489                         | 3,839                |
| Restricted cash held by trustees  | -                             | 1,004                |
| Trade receivables, net  | 53,086                        | 51,994               |
| Inventories   | 29,679                        | 29,612               |
| Other current assets  | 27,475                        | 22,973               |
| <b>Total current assets</b>   | <b>160,843</b>                | <b>166,660</b>       |
| <b>LONG-TERM INVESTMENTS AND RECEIVABLES:</b>   |                               |                      |
| Severance pay funds   | 10,960                        | 10,572               |
| Long-term restricted cash   | 2,110                         | 4,583                |
| Long-term trade receivables, receivables in respect of capital leases and other receivables | 19,030                        | 6,538                |
| <b>Total long-term investments and receivables</b>  | <b>32,100</b>                 | <b>21,693</b>        |
| <b>PROPERTY AND EQUIPMENT, NET</b>  | <b>100,973</b>                | <b>103,490</b>       |
| <b>INTANGIBLE ASSETS AND DEFERRED CHARGES, NET</b>  | <b>54,143</b>                 | <b>57,453</b>        |
| <b>GOODWILL</b>   | <b>107,536</b>                | <b>106,082</b>       |
| <b>Total assets</b>   | <b>\$455,595</b>              | <b>\$455,378</b>     |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

|   | June 30,<br>2011<br>Unaudited | December<br>31, 2010 |
|---|-------------------------------|----------------------|
| <b>LIABILITIES AND EQUITY</b>   |                               |                      |
| <b>CURRENT LIABILITIES:</b>   |                               |                      |
| Short-term bank credit  | \$1,854                       | \$2,129              |
| Current maturities of long-term loans and convertible subordinated notes  | 5,456                         | 2,186                |
| Trade payables  | 18,082                        | 18,267               |
| Accrued expenses  | 24,289                        | 24,591               |
| Short-term advances from customers held by trustees   | -                             | 1,004                |
| Other current liabilities   | 40,119                        | 39,675               |
| <b>Total current liabilities</b>  | <b>89,800</b>                 | <b>87,852</b>        |
| <b>LONG-TERM LIABILITIES:</b>   |                               |                      |
| Long-term loans, net  | 41,204                        | 45,202               |
| Accrued severance pay   | 10,774                        | 10,579               |
| Accrued interest related to restructured debt   | 288                           | 575                  |
| Convertible subordinated notes  | 14,374                        | 14,379               |
| Other long-term liabilities   | 32,737                        | 32,678               |
| <b>Total long-term liabilities</b>  | <b>99,377</b>                 | <b>103,413</b>       |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                               |                      |
| <b>EQUITY:</b>  |                               |                      |
| Share capital -   |                               |                      |
| Ordinary shares of NIS 0.2 par value: Authorized - 60,000,000 shares as of June 30, 2011 and December 31, 2010; Issued and outstanding - 40,940,212 and 40,697,831 shares as of June 30, 2011 and December 31, 2010, respectively | 1,869                         | 1,855                |
| Additional paid-in capital  | 866,145                       | 865,080              |
| Accumulated other comprehensive income  | 621                           | 774                  |
| Accumulated deficit   | (602,217 )                    | (603,596 )           |
| <b>Total equity</b>   | <b>266,418</b>                | <b>264,113</b>       |
| <b>Total liabilities and equity</b>   | <b>\$455,595</b>              | <b>\$455,378</b>     |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.





## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

|   | Six months ended<br>June 30, |                   |
|---|------------------------------|-------------------|
|   | 2011<br>Unaudited            | 2010<br>Unaudited |
| <b>Revenue:</b>   |                              |                   |
| Products  | \$98,808                     | \$52,554          |
| Services  | 62,927                       | 56,349            |
| <b>Total revenue</b>  | <b>161,735</b>               | <b>108,903</b>    |
| <b>Cost of revenue:</b>   |                              |                   |
| Products  | 55,016                       | 27,640            |
| Services  | 48,239                       | 44,773            |
| <b>Total cost of revenue</b>  | <b>103,255</b>               | <b>72,413</b>     |
| <b>Gross profit</b>   | <b>58,480</b>                | <b>36,490</b>     |
| <b>Operating expenses:</b>  |                              |                   |
| Research and development costs, net   | 15,991                       | 7,987             |
| Selling and marketing expenses  | 23,199                       | 15,963            |
| General and administrative expenses   | 18,100                       | 13,893            |
| Costs related to acquisition transactions   | 256                          | -                 |
| <b>Operating income (loss)</b>  | <b>934</b>                   | <b>(1,353 )</b>   |
| <b>Financial income (expenses), net</b>   | <b>(737 )</b>                | <b>10</b>         |
| <b>Other income</b>   | <b>1,826</b>                 | <b>-</b>          |
| <b>Income (loss) before taxes on income</b>   | <b>2,023</b>                 | <b>(1,343 )</b>   |
| <b>Taxes on income (tax benefit)</b>  | <b>644</b>                   | <b>(652 )</b>     |
| <b>Net income (loss)</b>  | <b>\$1,379</b>               | <b>\$(691 )</b>   |
| <b>Net income (loss) per share:</b>   |                              |                   |
| Basic   | \$0.03                       | \$(0.02 )         |
| Diluted   | \$0.03                       | \$(0.02 )         |
| <b>Weighted average number of shares used in computing net income (loss) per share:</b> |                              |                   |
| Basic   | 40,807,338                   | 40,356,235        |
| Diluted   | 42,113,951                   | 40,356,235        |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

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## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share data)

|  | Number<br>of<br>Ordinary<br>shares<br>(in<br>thousands) | Share<br>capital | Additional<br>paid-in<br>capital | Accumulated<br>other<br>comprehensive<br>income<br>***) | Accumulated<br>deficit | Total<br>comprehensive<br>income<br>(loss)****) | Total<br>shareholders'<br>equity |
|--|---|------------------|----------------------------------|---|------------------------|---|----------------------------------|
| Balance as of January 1,<br>2010                                 | 40,273  | \$ 1,832         | \$ 863,337                       | \$ 1,341  | \$ (634,215)           |   | \$ 232,295                       |
| Issuance of restricted<br>share units                            | 422   | 23               | -                                | -   | -                      |   | 23                               |
| Stock-based<br>compensation related to<br>employee stock options | -   | -                | 1,726                            | -   | -                      |   | 1,726                            |
| Conversion of<br>convertible subordinated<br>notes               | ** ) -  | *) -             | 1                                | -   | -                      |   | 1                                |
| Exercise of stock options  | 3   | *) -             | 16                               | -   | -                      |   | 16                               |
| Comprehensive income:  |   |                  |                                  |   |                        |   |                                  |
| Foreign currency<br>translation adjustments                      | -   | -                | -                                | (151 )  | -                      | \$ (151 )                                       | (151 )                           |
| Unrealized gain on<br>forward contracts, net                     | -   | -                | -                                | 613   | -                      | 613   | 613                              |
| Realized gain on<br>forward contracts, net                       | -   | -                | -                                | (1,029 )  | -                      | (1,029 )  | (1,029 )                         |
| Net income   | -   | -                | -                                | -   | 30,619                 | 30,619  | 30,619                           |
| Total comprehensive<br>income                                    |   |                  |                                  |   |                        | \$ 30,052                                       |                                  |
| Balance as of December<br>31, 2010                               | 40,698  | 1,855            | 865,080                          | 774   | (603,596)              |   | 264,113                          |
| Issuance of restricted<br>share units                            | 242   | 14               | -                                | -   | -                      |   | 14                               |
| Stock-based<br>compensation related to<br>employee stock options | -   | -                | 1,056                            | -   | -                      |   | 1,056                            |
| Conversion of<br>convertible subordinated<br>notes               | ** ) -  | *) -             | 9                                | -   | -                      |   | 9                                |
| Exercise of stock options  | -   | -                | -                                | -   | -                      |   | -                                |
| Comprehensive income:  |   |                  |                                  |   |                        |   |                                  |
|  | -   | -                | -                                | (256 )  | -                      | \$ (256 )                                       | (256 )                           |

|   |        |          |            |        |              |          |            |
|---|--------|----------|------------|--------|--------------|----------|------------|
| Foreign currency translation adjustments  |        |          |            |        |              |          |            |
| Unrealized gain on forward contracts, net | -      | -        | -          | (389 ) | -            | (389 )   | (389 )     |
| Realized gain on forward contracts, net   | -      | -        | -          | 492    | -            | 492      | 492        |
| Net income                                | -      | -        | -          | -      | 1,379        | 1,379    | 1,379      |
| Total comprehensive income                |        |          |            |        |              | \$ 1,226 |            |
| Balance as of June 30, 2011 (unaudited)   | 40,940 | \$ 1,869 | \$ 866,145 | \$ 621 | \$ (602,217) |          | \$ 266,418 |

\*) Represents an amount of less than one thousand dollars.

\*\*) Represents an amount lower than 1 thousand shares.

\*\*\*) Represents adjustments in respect of foreign currency translation and unrealized gain (loss) on forward contracts, net. The balance of accumulated other comprehensive income as of June 30, 2011 and December 31, 2010 included foreign currency translation adjustments in the amount of \$ 518 and \$ 774, respectively and unrealized gain (loss) on forward contracts, net, in the amount of \$ 103 and \$ 0.

\*\*\*\*) Total comprehensive loss for the six months ended June 30, 2010 amounted to \$ 1,309

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|   | Six months ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2011                         | 2010      |
|   | Unaudited                    |           |
| <b>Cash flows from operating activities:</b>  |                              |           |
| Net income (loss)   | \$1,379                      | \$(691 )  |
| Adjustments required to reconcile net income (loss) to net cash provided by (used in) operating activities: |                              |           |
| Depreciation and amortization   | 12,369                       | 6,218     |
| Stock based compensation  | 1,056                        | 734       |
| Accrued severance pay, net  | (193 )                       | 241       |
| Accrued interest and exchange rate differences on short and long-term restricted cash, net                  | (28 )                        | 19        |
| Accrued interest and exchange rate differences on marketable securities and short term bank deposits, net   | -                            | 110       |
| Exchange rate differences on long-term loans  | 522                          | (915 )    |
| Exchange rate differences on loans to employees   | -                            | 1         |
| Capital loss from disposal of property and equipment  | 69                           | 245       |
| Deferred income taxes   | 370                          | 6         |
| Decrease in trade receivables, net  | 19                           | 1,602     |
| Increase in other assets (including short-term, long-term and deferred charges)                             | (18,923 )                    | (2,143 )  |
| Increase in inventories   | (986 )                       | (871 )    |
| Increase (decrease) in trade payables   | (424 )                       | 92        |
| Decrease in accrued expenses  | (1,022 )                     | (626 )    |
| Increase (decrease) in advances from customer, held by trustees, net  | (1,004 )                     | 4,532     |
| Decrease in other accounts payable and other long-term liabilities  | (1,562 )                     | (274 )    |
| Net cash provided by (used in) operating activities   | (8,358 )                     | 8,280     |
| <b>Cash flows from investing activities:</b>  |                              |           |
| Purchase of property and equipment  | (3,892 )                     | (3,725 )  |
| Investment in bank deposits   | -                            | (30,693 ) |
| Proceeds from bank deposits   | -                            | 39,877    |
| Purchase of available-for-sale marketable securities  | -                            | (4,804 )  |
| Loans to employees  | (11 )                        | 1         |
| Investment in restricted cash held by trustees  | -                            | (11,110 ) |
| Proceeds from restricted cash held by trustees  | 1,016                        | 6,555     |
| Investment in restricted cash (including long-term)   | (12,142 )                    | (421 )    |
| Proceeds from restricted cash (including long-term)   | 14,091                       | 1,332     |
| Proceeds from working capital adjustment to subsidiary purchase price                                       | 1,465                        | -         |
| Acquisition of subsidiary, net of cash acquired (a)   | (1,867 )                     | -         |

|                                       |            |            |
|---------------------------------------|------------|------------|
| Purchase of intangible asset          | (21 )      | -          |
| Net cash used in investing activities | \$(1,361 ) | \$(2,988 ) |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

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## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|   | Six months ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2011                         | 2010      |
|   | Unaudited                    |           |
| <b>Cash flows from financing activities:</b>                              |                              |           |
| Issuance of restricted stock units  | \$14                         | \$10      |
| Repayment of convertible notes  | (394 )                       | (420 )    |
| Short-term bank credit, net   | (275 )                       | -         |
| Repayments of long-term loans   | (852 )                       | (166 )    |
| Net cash used in financing activities                                     | (1,507 )                     | (576 )    |
| Effect of exchange rate changes on cash and cash equivalents              | 102                          | (79 )     |
| Increase (decrease) in cash and cash equivalents                          | (11,124 )                    | 4,637     |
| Cash and cash equivalents at the beginning of the period                  | 57,238                       | 122,672   |
| Cash and cash equivalents at the end of the period                        | \$46,114                     | \$127,309 |
| <b>Supplementary cash flow activities:</b>                                |                              |           |
| (1) Cash paid during the period for:                                      |                              |           |
| Interest  | \$541                        | \$608     |
| Income taxes  | \$784                        | \$173     |
| (2) Non-cash transactions-  |                              |           |
| Conversion of long-term convertible subordinated notes to ordinary shares | \$9                          | \$1       |
| Classification from inventories to property and equipment                 | \$585                        | \$1,021   |
| Classification from property and equipment to inventories                 | \$78                         | \$214     |

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## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

|  | Six months<br>ended June<br>30,<br>2011 |
|--|---|
| (a) Payment for the acquisition of Cicat (see also Note 1e):                             |   |
| Estimated fair value of assets acquired and liabilities assumed at the acquisition date: |   |
| Working capital (excluding cash and cash equivalents)                                    | \$226                                   |
| Property and equipment, net  | 42                                      |
| Intangible assets  | 720                                     |
| Goodwill   | 1,890                                   |
| Other non-current assets   | 209                                     |
| Long-term liabilities  | (398 )                                  |
| Contingent consideration   | (822 )                                  |
|  | \$1,867                                 |

The accompanying notes are an integral part of the condensed interim consolidated financial statements.



GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands

NOTE 1: GENERAL

a. Organization:

Gilat Satellite Networks Ltd. (the "Company" or "Gilat") and its subsidiaries (the "Group") is a global provider of Internet Protocol, or IP, based digital satellite communication and networking products and services. The Group designs, produces and markets VSATs, or very small aperture terminals, and related VSAT network equipment. VSATs are earth based terminals that transmit and receive broadband, Internet, voice, data and video via satellite. VSAT networks combine a large central earth station, called a hub, with multiple remote sites (ranging from tens to thousands of sites), which communicate via satellite. In addition, following the acquisition of Raysat Antenna Systems ("RAS") (see also Note 1c) on July 1, 2010, the group develops and provides Satcom On The Move antenna solutions and following the acquisition of Wavestream (see also Note 1d) on November 29, 2010, the Group develops and designs high power solid state amplifiers (SSPA) for military and commercial broadband communications, radar and imaging.

Gilat was incorporated in Israel in 1987 and launched its first generation VSAT in 1989.

For a description of principal markets and customers, see Note 8.

Starting 2010 and following the acquisition of Wavestream the Group operates four complementary, operational and reportable segments:

- Gilat worldwide which is comprised of two reportable segments:
  - o Gilat International (previously known as Gilat Network Systems or "GNS"), a provider of VSAT-based networks and associated professional services, including turnkey and management services, to telecom operators worldwide. Since the acquisition of RAS during 2010, Gilat International is also a provider of low-profile antennas, used for satellite-on-the-move communications (Satcom-OnThe-Move) antenna solutions, and
  - o Gilat Peru & Colombia (previously known as Spacenet Rural Communications or "SRC" segment), a provider of telephony, Internet and data services primarily for rural communities in Peru and Colombia under projects that are subsidized by government entities.
    - Spacenet Inc. ("Spacenet"), a provider of satellite network services to enterprises, small office/home office ("SOHOs") and residential customers in the U.S.
- Wavestream Corp. ("Wavestream"), a provider of high power solid state amplifiers (SSPA) Block Upconverters (BUCs) with field-proven, high performance solutions designed for mobile and fixed satellite communication (SATCOM) systems worldwide, primarily in the defense market. Wavestream is currently concentrated on sales to government defense agencies which accounts for most of its revenues, mainly the U.S. Department of Defense, pursuant to contracts awarded to system integrators under defense-related programs.

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GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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U.S. dollars in thousands

NOTE 1: GENERAL (Cont.)

b. Aborted Agreement and Plan of Merger (the "Agreement and Plan of Merger"):

On March 31, 2008 the Company announced the signing of an Agreement and Plan of Merger to be acquired for an aggregate value of \$ 475,000 in an all cash transaction by a consortium of private equity investors. The closing of the transaction was subject to shareholders' approval, certain regulatory approvals and other customary closing conditions.

On August 5, 2008 the Company informed the consortium that all conditions precedent to closing had been met. On August 29, 2008, the Company notified the consortium that it was terminating the Agreement and Plan of Merger citing the consortium's intentional breach of the merger agreement and failure to close the merger transaction within the extended time period established to complete the transaction.

The definitive agreement provided for a termination fee in the amount of approximately \$ 47,500 payable to the Company, and the Company sued the consortium members for this amount. In August 2010, the Company signed settlement agreements with each of the consortium members. Under the terms of the settlement agreements, Gilat will receive an aggregate amount of approximately \$ 20,000, of which over half was received prior to October 1, 2010, and the remainder is to be paid in annual installments ending in October 2013. The settlement agreements were reached as part of mediation proceedings that began in 2009.

c. Business combination - acquisition of RAS:

In March 2010 and in April 2010, the Company entered into definitive agreements to acquire all of the units of Raysat Antenna Systems ("RAS LLC"), a provider of Satcom On The Move antenna solutions, and all of the shares of RaySat BG ("Raysat BG"), a Bulgarian research and development center for total consideration of \$ 25,200 and \$ 3,300 respectively, in cash. During July and August 2010, the Company closed the acquisitions of both entities. In conjunction with these transactions, the Company also acquired patents and marketing rights in the field of two-way SatCom on the Move antennas in the amount of \$ 2,500.

The excess of total acquisition costs over the fair value of net tangible and identifiable intangible assets on acquisition amounting to \$ 20,162 was attributable to goodwill of which approximately \$ 13,500 was allocated to the Spacenet segment and the remainder amounting to \$ 6,662 was allocated to the Gilat International segment.

## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 1: GENERAL (Cont.)

The goodwill from these acquisitions relates to additional capabilities of the Group to expand its product and technology offering, to augment capabilities of current products and the ability to enter new markets. Of such goodwill, \$ 10,800 is deductible for tax purposes.

Technology, customer relationships and backlog deriving from acquisitions in the total amount of \$ 9,333 are being amortized at an annual weighted average of approximately 8 years.

In process research and development deriving from the acquisition in the amount of \$ 445 represents incomplete research and development projects that did not reach technological feasibility on the date of the acquisition. Upon completion of development, the acquired in process research and development will be considered finite-lived assets and will be amortized accordingly at an annual weighted average of 9.5 years.

Under the purchase method of accounting the purchase price was allocated to the acquired identifiable intangible assets and liabilities assumed based upon their estimated fair values as follows:

|                                     |          |
|-------------------------------------|----------|
| Cash                                | \$1,396  |
| Other current assets                | 3,140    |
| Non-current assets                  | 2,144    |
| Property and equipment              | 3,147    |
| Intangible assets:                  |          |
| Technology                          | 7,963    |
| Customer relationships              | 1,279    |
| Backlog                             | 91       |
| In process research and development | 445      |
| Goodwill                            | 20,162   |
| Current liabilities                 | (7,867 ) |
| Long-term liabilities               | (3,437 ) |
| Net assets acquired                 | \$28,463 |

## d. Business combination - acquisition of Wavestream:

On November 29, 2010 the Group completed the acquisition of all of the outstanding shares of Wavestream, a provider of high power solid state amplifiers.

Wavestream was acquired for approximately \$ 135,000 out of which \$ 2,500 represented the fair value of the potential contingent consideration according to the Company's management estimation and was accrued in the Group's financial statements. The contingent consideration may earn out up to \$ 6,800 and is based on the revenues target of Wavestream for 2011. The Company classified the contingent considerations as a liability as of the date of the transaction.



## GILAT SATELLITE NETWORKS LTD. AND ITS SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 1: GENERAL (Cont.)

Following lower revenues derived from Wavestream during the second quarter of 2011 compared to the original expected revenues and the revenues target for the entire year 2011, the Company determined the fair value of the contingent consideration was nil. The changes in the contingent consideration fair value were recognized as earnings and were recorded as other income in the condensed interim consolidated statements of operations.

The excess of total acquisition costs over the fair value of net tangible and identifiable intangible assets on acquisition amounting to \$ 85,920 and was attributed to goodwill and was allocated in its entirety to the Wavestream segment. This amount of goodwill is not deductible for tax purposes.

In April 2011, the Company received \$436 in cash as part of a working capital adjustment pursuant to the acquisition agreement. As a result, the Company retrospectively adjusted the provisional amounts recognized at the acquisition date and adjusted the goodwill balance.

The goodwill recorded from this acquisition is attributable to the additional capabilities of the Group to expand its products and technology offerings, to augment the capabilities of its current products and the ability to enter the military and defense markets.

Technology, customer relationships and backlog in the amount of \$ 43,568 are being amortized at an annual weighted average of 7.5 years.

The following table summarizes the estimated fair values of the assets of Wavestream assets that were acquired and the liabilities assumed and related deferred income taxes as of the acquisition date, considering the working capital adjustment to the purchase price as mentioned above:

|                           |          |
|---------------------------|----------|
| Cash                      | \$5,873  |
| Other current assets      | 18,425   |
| Non-current assets        | 355      |
| Property and equipment    | 3,513    |
| Intangible assets:        |          |
| Technology                | 40,040   |
| Customer relationships    | 3,187    |
| Backlog                   | 341      |
| Goodwill*                 | 85,484   |
| Current liabilities       | (13,609) |
| Long-term liabilities **) | (9,097 ) |